

## STOCK MARKET: LESSON 6

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**Objective:** To explain the terms *supply and demand*

**Materials:** Internet access to YouTube  
story from Realtrees4kids

### Introduction:

<https://www.youtube.com/watch?v=7lPMoyzDiNo> (4 min 53 sec)

This is done by a young man who is more than likely in 5<sup>th</sup> or 6<sup>th</sup> grade. He simply, in his own clever way, explains *supply* and *demand* in kid language.

### Procedure:

## Supply & Demand

<http://www.realtrees4kids.org/ninetwelve/supply.htm>

**Supply and demand impacts almost everything you do. When you visit the mall to find the newest fashions, snag a copy of the newest video game, or have your hair cut in the newest style, you tell stores what types of items and services you are interested in purchasing. This is *demand* ... your ability and willingness to pay for a certain good (item) or service.**

**The owners of stores must know about demand. They use information about what you buy (and how much) when they decide what to sell in their stores. They place orders from **manufacturers** by looking at what you have purchased in the past and what they predict you will purchase in the future. This is *supply* ... the amount of a good or service a seller offers for a certain price and a certain time.**

**Supply and demand work hand-in-hand in a **market economy**. For the economy to be healthy and successful, businesses must sell what buyers want and shoppers must be willing to spend their money!**

**The **laws of supply and demand** can be a bit tricky. So, let's look one product ... TREES.**

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### Meet Percy the Producer

*I have to predict what type of trees my customers will want to buy. If I don't think about this, I might not plant the right type of trees and my business would not do well.*



Percy Producer owns a Real Tree farm (also called an operation/business). He loves his job and wants to stay in business for a long time. So every year, when it comes time to plant new seedlings, he reviews how many trees he sold during the last season. He researches the types of trees people are interested in purchasing. Then, he makes a prediction about what people may want to buy in the future and determines what it will cost him to grow the number of trees he thinks will be needed.

**Percy Producer wants to SUPPLY his customers with exactly what they want at a price they are willing to pay.**

**The amount of a good or service he can SUPPLY will help determine the cost his customers will pay for a good (product).**

In addition to the research and predictions he must make, Percy has some other things to think about. He grows several different types (species) of trees. So Percy must decide how much of each species to plant. Percy must also remember that nature has a way of making things challenging. If there is a drought, ice storm or a disease spreads through his crop, he must be prepared to plant extra the following year.

In order to stay in business, Percy knows that he must pay for managing and running a tree farm. He must also buy his seedlings from a nursery and be able to pay his employees (including himself) to plant and cultivate the trees. He will have to purchase or repair machinery necessary to cultivate his crop. He must purchase the supplies required to keep his business running smoothly as well as advertise his trees. Finally, Percy must decide if he is going to sell his trees to a retailer (ex. Walmart or Lowes) or if he is going to allow **consumers** to come to the farm and select their own trees.

Percy, and other tree growers, must think of all of these factors and the costs that go with them when deciding about what and how much to plant and harvest.

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### Consumer Corynn

As a consumer, Corynn also has some decisions to make. She must decide what types of trees will make meet her needs.

When she makes this decision, she has a checklist of things she must consider. She thinks about how much money she can afford to spend, where she will put her trees and what shape will look best, the types of trees that grow best in her area, and her family's traditions. Finding the answers to the questions on her list may require her to do some research and shopping around for the best prices.

Because Corynn has several choices where her tree may come from, the sellers who would like her to be a customer must offer both high quality trees at the right price AND excellent customer service. Corynn, and other consumers, make their purchasing decisions by determining what is most important to them and finding a seller who can give them what they want!



*I want the perfect tree!  
I will pay a bit more to  
get exactly what I  
want!!*

**Corynn Consumer is willing to pay for the goods and services she wants!**

**Her DEMAND helps determine what products will be available for sale and how much each will cost!**



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**What if?**

**So, now we know the part both **producers** and **consumers** play when it comes to the laws of supply and demand. Now let's look at what happens when producers don't produce enough to meet the demand or when consumers don't buy enough to use up the supply. Remember, supply and demand work hand-in-hand; that means that a change in one causes a change in the other.**

### **TREES and the Law of Supply:**

**As the price of TREES goes up, growers, such as Percy, will harvest and/or plant more. If the prices go down, then growers will end up planting/harvesting less.**

### **TREES and the Law of Demand:**

**As the price of a tree increases, people, such as Corynn may not want to pay for or be unable to pay the price, so the demand will go down. If the prices go down, then people may be willing or able to pay, so the demand will go up.**

**These changes in supply and demand happen all the time. Economists follow the buying and selling patterns of people, you and me, all the time. By looking at the patterns (sometimes called trends), they are able to predictions about the economy.**

**Next time you or your parents go shopping, remember that each time you/they spend your/their hard-earned money; you/they are taking an active part in a market economy!**



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[https://s3.amazonaws.com/lowres.cartoonstock.com/weather-green-grocers-green-grocer-snowman-christmas-winter-tcrn849\\_low.jpg](https://s3.amazonaws.com/lowres.cartoonstock.com/weather-green-grocers-green-grocer-snowman-christmas-winter-tcrn849_low.jpg)

**Optional Simulation Activity** *(This is simple and works well.)*

[http://www.totally3rdgrade.com/lesson\\_plan\\_supply\\_demand.html](http://www.totally3rdgrade.com/lesson_plan_supply_demand.html)

**AUTHOR:** Lisa Knight, Meadow Glade Elementary, Battle Ground, WA

**GRADE LEVEL:** Appropriate for grades 4-7 (easily adaptable for 3rd grade)

**RESOURCES/MATERIALS:**

Teacher materials: tokens, prize for each student in class (it can be something as simple as chocolate kisses)

\*Tokens (squares of colored paper → Blue = 10, Green = 5, Yellow = 1, Red = 0)

Student materials: pencil, 3 index cards

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### **ACTIVITIES AND PROCEDURES:**

Students will be given a box of tokens with at least two different colors in it and asked to select any number of them from one to a handful.

Place a value on the tokens. (Make certain this is done AFTER students have already selected their tokens.)

Pull out an object that students would desire to own and let the students know that they will only receive an "A" on this lesson if they own this selected item of which you happen to have EXACTLY one of. You will announce the bidding to be open at "10" and they may use their tokens to purchase the item.

Continue auction until a student has paid a high price for this item and received it. Then pull out a large supply of the very same item just sold while announcing that you just happen to have a few more of these items and you're willing to open the bidding at "1".  
**WAIT & WATCH REACTION!**

Write *supply* and *demand* on board. Ask the individual who bought the overpriced item to define what these terms mean to him in light of the experience he just had, explain why he was motivated to pay such a high price for it, and let us know if he would have paid so much had he known there were enough items to go around.

Thought provoking question to ask: "What if these tokens represented money and this was all the money you had available for two months? Would you have spent your money/tokens the same way?"

### **TYING IT ALL TOGETHER:**

Ask students to think of three items in their desks and to secretly set a price for each one of them on an index card which is folded so that it can stand upright on the desks.

Instruct students to then take out the items and place them by the appropriate "price tag" on their desks.

Invite students to go "shopping" and check out all the prices in the "store".

Lead the students in the discussion which will naturally follow with questions such as:

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"Now that you know how other merchants priced their items, how will it affect your pricing of the same items?"

"Were there some items that would be in high demand because of their low supply? How might that impact pricing?"

Students may want to stock their "shelves" differently after doing some comparison shopping and seeing the availability of certain items. You may then choose to give them another opportunity to price three items of their choice and discuss their changes and why they were made.